

BALANCING YOUR BEE ACT

Is your strategy poised for sustaining the growth of your black-empowered enterprise?

By **ESTELLE BOSMAN** and
HEIN OOSTHUIZEN

As South African companies scramble to comply with black economic empowerment regulations, many may be entering into deals without weighing up the impact of their BEE moves on long-term strategic business goals.

The Broad-based Black Economic Empowerment Act (Act 53 of 2003) has made it necessary for enterprises to become black-empowered. And government has since clearly demonstrated its seriousness in translating the act into practice. Reinforcing this intent, the Department of Trade and Industry (DTI) introduced a balanced scorecard to assist businesses to measure their level of compliance.

The DTI scorecard provides a useful checklist. However, it is not the purpose of this scorecard to provide a broader framework that would entrench the BEE initiatives of companies in a proper strategic planning process.

Therefore, if the DTI scorecard is used as the only guideline, BEE deals run some risk of falling short of delivering strategic value to the participating parties. There is a pressing need for a more comprehensive scorecard that will help companies to merge BEE objectives with the strategic business goals they have set their sights on. Only

when the empowerment objectives and strategic growth objectives blend will BEE deals deliver true value to the company – ultimately better serving the economic development goals of the country.

The requirement for an enhanced scorecard prompted research by the University of Stellenbosch Business School (USB). This study led to the creation of a new model geared to address inadequacies in current BEE practice, and so fill an important gap.

Planning for strategic growth

The USB research approached the

problem by arguing that, for any company, BEE initiatives should be dealt with as a longer-term strategic venture aimed at creating sustainable growth.

Businesses can follow certain generic corporate strategies to accomplish strategic growth, namely diversification, mergers and acquisitions (M&A) and strategic alliances. These three strategies may be applied separately or in combination with one another. Diversification, for instance, may be sought through M&A or alliances.

Regardless of which of the three generic growth strategies you follow, the challenge of strategic fit will



Image: Fotosearch

Generic strategies for growth

Diversification. A strategy of diversification involves expanding the existing range or variety of goods or services delivered by a business and, hence, the *different markets* it supplies. The commonly-held view is that for a diversification strategy to work it should pursue related business opportunities. This would mean new business avenues that are closely related or complementary to the current core business activities and where mutual strengthening can take place.

Mergers and acquisitions. A merger and acquisition (M&A) strategy allows a company to gain access to existing sources of potential competitive advantage *beyond company borders*. Some theorists suggest that strategic fit plays an important role in the success of M&A. Not only should companies try to expand into new business sectors, but they should also aim to gain certain advantages that would strengthen their existing core businesses. In a BEE context, M&A should therefore be approached with the view to mutually transferring strengths and key skills to facilitate empowerment and capacity-building.

Strategic alliances. Strategic alliances are bilateral agreements between two companies geared to seal a certain commitment to common goals. Usually, strategic alliances are formed as a way to exchange or combine resources on a *partial basis*. Strategic alliances can, for example, take the form of licensing agreements, joint ventures, joint operations and value chain partnerships. Carefully selected alliances that create proper synergy and are balanced as far as strengths are concerned can become a powerful source of new competitive advantage.

present itself, because new value chains need to be integrated with existing value chains. The fit may, for instance, lie in the synergy of combined expertise and technology, the sharing of key business processes and resources, or the common exploitation of powerful brand names.

Besides exploring in which areas fit may be achieved, companies must also be aware of opportunities to deepen the level of fit. First-order fit, at the shallow end, implies a mere *consistency* between two value chains. With second-order fit, mutual *reinforcement* takes place. But only when mutual *optimisation* between value chains becomes evident, you have reached third-order fit. The essence here is the pooling of skills in an imaginative way so that the creation of new markets and opportunities can gain momentum.

Third-order fit should be the aim of BEE growth strategies because this will lead to true economic empowerment. The fear is that, without attention to a strategic process which sets out to craft synergies in an ingenious way, many BEE transactions may at best achieve first-order fit.

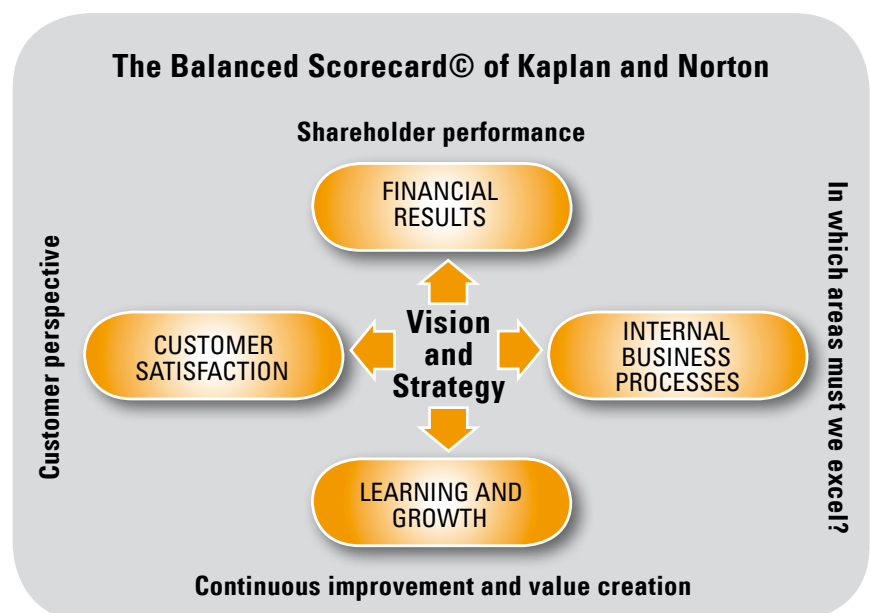
The research, therefore, proposed a scorecard that could illuminate the fuller range of strategic activities that may guide BEE initiatives towards strategic fit, especially third-order fit.

Measuring strategic accomplishment

The Balanced Scorecard©, which was originally introduced by Kaplan and Norton in the nineties, forms the foundation of the proposed new scorecard.

The Balanced Scorecard© is a move away from the traditional preoccupation with financial (and market-based) metrics as the only indicators of business success. True strategic progress, it was argued, results from a balanced contribution also of other strategic activities – for which targets should be set and measured.

The Balanced Scorecard© diagram (below) shows the other performance areas which, along with *financial results*, should be measured, as they are also value-adding areas. These are: the *internal business processes*, *customer satisfaction*, and *learning and growth*; all of which can be powerful indicators of future operational performance. ▶



The deeper essence of the Balanced Scorecard® is the direct link it forges between the vision and strategy of the company and performance measurement. In other words, the Balanced Scorecard® becomes the tool to articulate your company's strategy into a set of measurable outputs across the activities of the organisation. In this way strategy becomes part of the daily agenda. This is why the concept of the Balanced Scorecard® offers a useful starting point for this research.

The practical implementation of the Balanced Scorecard® over the years has led to several permutations of the original model. Newer generations may have a different appearance and may incorporate other areas of measurement. Nevertheless, they all retain the essential two principles of the original concept – that of reflecting a balanced set of targets and measurements, and that of linking measurement to strategy.

The scorecard for sustainable BEE ventures

The USB's research thoroughly examined the thought-processes behind the Balanced Scorecard® and subsequent versions in order to design a concept for a scorecard for sustainable BEE ventures. Among those examples scrutinised were models developed to facilitate employee-diversity objectives.

Like many of the scorecards developed to date, the scorecard that resulted from this research features four focus areas of measurement, but these now zoom in on activities aimed at achieving the twin goals of company sustainability and BEE transformation.

The proposed model – a scorecard for *sustainable* BEE ventures – is shown

on the opposite page. The starting point of your BEE initiative is your company's BEE vision and strategy (see core of diagram). Putting this central strategic purpose into effect requires the careful design of the four important pillars of your BEE strategy, namely *financial impact*, the *workforce profile*, *innovation and learning*, and *market and diversification strategy* (see four boxes). This model gives a 'balanced' weighting to each of the four pillars. The model recognises that these pillars are sustained by everyday organisational activities. To deliver the strategy, the operational

quality norms and target dates.

The model should be viewed as a template. In your hands, it should be adapted to suit the circumstances and content of your BEE strategy. No *one* scorecard can be a tailored solution for all. The scorecard model, as illustrated, is populated with typical measurements, as examples. Not all these measurements may apply to your company, but should serve as a checklist to guide you. It must be borne in mind that those measurements from the DTI scorecard that are relevant to your organisation should be incorporated.

By applying this scorecard in at

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objectives of the organisation must be carefully planned in advance, with the strategy in mind. For that reason the objectives are broken down into a series of detailed activities which collectively should lead to the achievement of the objectives. By formulating the activities as measurements, the attention of staff is focused on the outcomes.

The target column, which completes the model, is where the measurements are presented in the form of quantified desired outcomes – e.g. in units like rands, percentages, numbers, levels,

least the level of detail shown here, you bring to the fore areas where opportunities for strategic fit may lie dormant. Several of the measurements included in this illustration exemplify opportunities for achieving synergies between existing and new value chains. In the diagram, these measurements are highlighted.

So how does this benefit you? The scorecard for sustainable BEE, as proposed, has everything to do with planning for successful BEE, while keeping your long-term business goals within the same focus. ■



ESTELLE BOSMAN (pictured) examined BEE strategy formulation as her final MBA research project at the USB, under the guidance of PROF HEIN OOSTHUIZEN. The research report was presented in December 2005 under the title of *The development of a strategic model for long-term sustainability of black economic empowerment in South Africa*.

SCORECARD FOR SUSTAINABLE BEE VENTURES

Market and diversification strategy

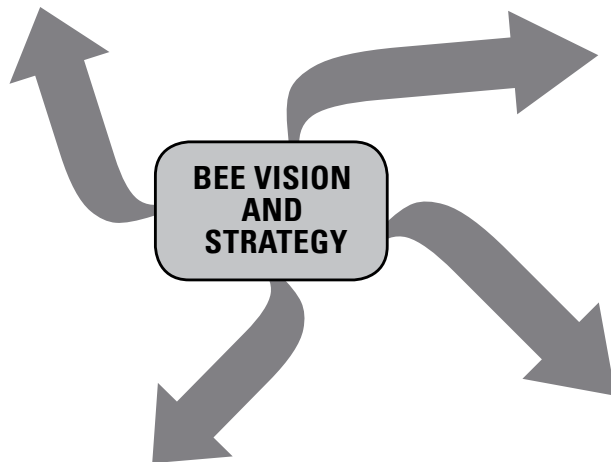
How does the market perceive our value proposition and ability to integrate diversification?

OBJECTIVE	MEASUREMENT	TARGET
Management of diversification strategy	<ul style="list-style-type: none"> • Level of fit with alliance or acquired company • New entry opportunities created by diversification actions • Number and percentage of new government contracts • Avoidance of contracts lost (number) owing to score in terms of BBBEE Act • Percentage BEE ownership or BEE empowerment through profit share • Percentage partnership or alliance satisfaction rate 	
Market satisfaction	<ul style="list-style-type: none"> • Percentage customer satisfaction • Brand recognition • Percentage customer retention • Percentage BEE suppliers 	

Financial impact

To succeed financially, how should we appear to our shareholders?

OBJECTIVE	MEASUREMENT	TARGET
Profitability and shareholder value	<ul style="list-style-type: none"> • Operating margins • Rands saved on growth strategy (diversification) • Stability of earnings as a result of diversification • Cost of entry of diversification strategy • Percentage shareholders with own diversity capability 	
Growth	<ul style="list-style-type: none"> • Growth percentage increase due to diversification • Increased investment opportunities due to diversification • Increased contractual agreements due to diversification • Impact of broader coverage due to diversification 	
Efficiency and expense reduction	<ul style="list-style-type: none"> • Cost savings due to outsourcing of non-core business • Percentage savings by combining resources made possible by partnership and sharing activities • Cost savings due to related diversification • Clearly defined goals and objectives of strategic partnership 	



Innovation and learning

How will our empowerment strategies contribute to sustainable competitive advantage?

OBJECTIVE	MEASUREMENT	TARGET
Empowerment	<ul style="list-style-type: none"> • Number of opportunities to empower smaller BEE ventures by outsourcing non-core work • Opportunities for expertise-sharing and skills transfer created by diversification strategy • Number of new ways to compete after gaining complementary skills from diversification • Ability to optimise existing strengths as a result of strategic alliance • Level of skills improvement of management resulting from diversification • Level of brand extension opportunity arising from diversification • Opportunities to share risk • Opportunities to exploit unique strengths offered by strategic partnership 	

Workforce profile

To meet the requirements of sustainable BEE, what will our workforce and management team reflect?

OBJECTIVE	MEASUREMENT	TARGET
Recruitment and retention	<ul style="list-style-type: none"> • Percentage affirmative action appointments • Percentage affirmative action management and executive members • Affirmative action and transformation policy • Cost of entry of diversification strategy • Prospects of BEE ownership 	
Integration and internal efficiency	<ul style="list-style-type: none"> • Level of understanding and commitment to strategic direction • Level of understanding and commitment to diversification strategy • Percentage favourable ratings obtained in employee climate survey • Perception of consistent and equitable treatment of all employees • Number and percentage of competent diversity employees 	
Management commitment	<ul style="list-style-type: none"> • Empowerment mission and vision written • Growth strategy aligned with philosophies and company strategy • Cost savings due to related diversification • Level of match between management philosophies and alliance • Level of management skills and strength • Level of understanding of existing strengths and weaknesses in skills and resources • Level of trust in strategic alliances 	

NOTE: The measurements in bold lettering exemplify opportunities for synergies between existing and new value chains.